MCX
METAL & ENERGY
Trade with Trust



KAPAS

PERFORMANCE REVIEW
2022-2023

FOREWORD TO THE KAPAS PERFORMANCE REVIEW

The Kapas Performance Report (PR) is the outcome of the SEBI circular SEBI/HO/CDMRD/DNPMP/CIR/P/2020/21 dated February 04, 2020 directing all recognized Stock Exchanges offering commodity derivatives segment to create a 'Performance review of the commodity derivatives contracts'. The PR, based on SEBI directive, has to be uploaded on the Exchange website by June 30, 2023 after consultation with the respective Product Advisory Committee (PAC).

Following the above directive, the Agri - Product Management Team (PMT) at the Exchange has created PRs for all the listed Agri products. These have since been prepared in consultation with the respective Commodity/Commodity Complex PACs.

The Kapas Performance Report highlights the important aspects of the trade like the domestic and international supply, import and export statistics, etc. There is also extensive information on the volume, turnover, open interest, deliveries of Kapas on the Exchange, along with the price correlations with spot markets, international market and hedging efficiency to help the market participants get an empirical understanding of the performance of the Kapas contract on the Exchange.

Acknowledgement

We have been ably guided by the MCX Kapas PAC members in improving the content of the report and we are extremely thankful to them. We hope to keep improvising the report going forward.

1. **Background**
    a. **Brief about the commodity such as sample picture, lifecycle and various varieties/grade of the commodity found in India**

Brief about Kapas

Kapas (seed for Cotton) is un-ginned fibrous substance extracted from the cotton boll/plant which covers the seeds. Typically, raw cotton contains 34% Fiber and 63.5% seed by weight and remaining 2.5% wastage. Lint obtained from Kapas is manly used for production of Cotton. The seed extracted from kapas is crushed to extract oil and the by product which is left after crushing is Cotton seed oil cake generally used as cattle feed. Kapas is raw material of lint cotton.

Shankar Kapas is majorly grown in Gujarat. Shankar Kapas has an annual production of about 45 lakh MT against India average Kapas production of 180 lakh MT. Cotton is one of the most important textile fibers. Cotton is a heavily traded agricultural commodity with a number of countries involved in exporting or importing cotton.

In India, a central nodal agency, Cotton Corporation of India (CCI) is the procuring agency for cotton and carries out procurement of Kapas (seed cotton) through open auction in competition with other traders and mills, conducted by the APMCs, in the notified market yards. It has been estimated that about 80 per cent of the marketed surplus of Kapas and lint is handled by the private marketing channels and the remaining 20 per cent by the institutional marketing channels including co-operatives and Cotton Corporation of India.

Sample picture



Life cycle

Cotton is grown in India in three zones with different sowing and harvesting periods during the season from October-September.

In India, farmers generally store Kapas for more than a year. This stored Kapas can deteriorate in color and quality. The marketing season of Kapas is throughout the year in India.

North zone	Central zone	South zone
Punjab, Haryana, Rajasthan	Gujarat, Maharashtra, Madhya Pradesh	Telangana, Andhra Pradesh, Tamil Nadu, Karnataka
Sowing		
April, May	June, July	July, August, September
Harvesting		
September, October	October, November, December	December, January, February

Various varieties/grades

A few names of local varieties available in India are Shankar 6, V-797, Kalyan, Bengal Deshi etc.

b. Commodity fundamentals and balance sheet as per the following format (to be prepared based on publicly available information on best effort basis):

Kapas fundamentals:

- Weather condition in cotton producing areas especially at sowing, flowering and harvesting stage
- Demand of lint from textile industry
- Demand for Cotton seed from crushing industry
- Demand for Cotton Seed Oil Cake from farmers, dairy and feed industry
- Price movement in Cotton bales & Cotton seed
- Tariff & Non-tariff barriers including taxes, quota, etc.
- Production and inventory of Cotton both international and Indian

Table - Balance sheet

Global Scenario ('000 MT)	2021-22	2022-23
N.A.		

Balance sheet		
Indian Scenario ('000 MT)	2021-22	2022-23
N.A.		

Top 10 Major producing countries ('000 MT)	2021-22	2022-23
N.A.		

Top 10 Major consuming countries (‘000 MT)	2021-22	2022-23
N.A.		

Top 10 Major exporting countries (‘000 MT)	2021-22	2022-23
N.A.		

Top 10 Major importing countries (‘000 MT)	2021-22	2022-23
N.A.		

Top 10 Major producing states in (‘000 MT	2021-22	2022-23
N.A.		

N.A.- Not available

Kapas (raw cotton) generally trades in loose form and is delivered in trucks. Physical market of Kapas is unorganised in India. There is no authentic data source of Kapas in India. Based on Cotton production the reverse calculation is as below.

Kapas (MT)		
2022-23	Cotton 34%	Kapas 100%
Production	5732910	16861500

c. Major changes in the polices governing trade in the spot markets of the commodity

Union Minister of Textiles, Commerce & Industry, Consumer Affairs and Food & Public Distribution, Shri Piyush Goyal held second interactive meeting with the Textile Advisory Group (TAG), in Mumbai, on 14.07.2022 to review progress of work. Shri Goyal emphasized that supply of good quality cotton seeds is the vital necessity for improving productivity of cotton. He also emphasized the need to introduce advanced technologies related to high yielding cotton seeds and innovative agronomy such as High Density Planting System to enhance productivity of cotton. He directed the Cotton Corporation of India to lend Agricultural Extension Services in co-operation with Indian Council of Agricultural Research (ICAR) to our farmers through its network of branches all over India. Shri Goyal wishes industry to focus on quality consciousness across the value chain and assured that initiatives for supporting modern facilities would be facilitated. Textile Value Chain needs to strengthen traceability technologies and testing facilities in the country. Shri Suresh Kotak elaborated initiatives in the direction to augment supply, crop protection and cotton productivity, which are essential for strengthening cotton textile value chain from farm to fashion to foreign. Source: PIB Release, July 15, 2022.

d. Geo political issues in the commodity and its impact on Indian scenario.

There is no major geo-political issues and its impact on Indian scenario of Kapas.

2. Trading related parameter

a. Monthly and Annual traded volume (quantity in appropriate units)

Month	Traded Quantity (MT)
APR'22	124
MAY'22	4
JUN'22	8
JUL'22	40
AUG'22	0
SEP'22	8
OCT'22	20
NOV'22	0
DEC'22	36
JAN'23	8
FEB'23	4
MAR'23	4
2022-23	256

b. Annual traded volume as proportion of total deliverable supply (quantity in appropriate units)

	Annual traded volume (MT)	Deliverable Supply (MT)
2022-23	256	19335500
Annual traded volume as proportion of deliverable supply	0.0013%	

c. Annual traded volume as proportion of total annual production (quantity in appropriate units)

	Annual traded volume (MT)	Production (MT)
2022-23	256	16861500

Annual traded volume as proportion of production	0.0015%

d. Annual average Open interest as proportion of total production

	Annual average OI (MT)	**Production (MT)**
2022-23	16	16861500
Annual average OI as proportion of production	0.00009%	

e. Annual average Open interest as proportion of total deliverable supply

	Annual average OI (MT)	**Deliverable Supply (MT)**
2022-23	16	19335500
Annual average OI as proportion of deliverable supply	0.00008%	

f. Monthly and Annual value of trade (in Rs. Crores)

Month	**Volume (Rs.cr)**
APR'22	1.40
MAY'22	0.03
JUN'22	0.07
JUL'22	0.33
AUG'22	0
SEP'22	0.07
OCT'22	0.16
NOV'22	0
DEC'22	0.30
JAN'23	0.07
FEB'23	0.03
MAR'23	0.03
2022-23	2.48

g. Monthly and Annual quantity of delivery (in appropriate units)

No deliveries took place in Kapas since the launch of the contract.

h. Monthly and Annual value of delivery (Rs. Crores)

No deliveries took place in Kapas since the launch of the contract.

i. Monthly and Annual Average Open Interest (OI) (in appropriate units)

Month	Average OI (MT)
APR'22	72
MAY'22	4
JUN'22	4
JUL'22	4
AUG'22	NA
SEP'22	8
OCT'22	4
NOV'22	4
DEC'22	12
JAN'23	20
FEB'23	20
MAR'23	20
2022-23	**16**

j. Annual average volume to open interest ratio

	Average traded volume (MT)	Average OI (MT)
2022-23	0.99	16
Annual average volume to open interest ratio	0.062	

k. Total number of unique members and clients who have traded during the financial year

Unique Members	Unique Client
13	23

l. Ratio of open interest by FPOs/farmers/Hedge/VCP positions to total open interest (Annual average as well as maximum daily value)

Average based weekly data						Maximum Open Interest	
Avg Open Interest based weekly data	Unit	FPOs/ Farmers/ VCPs/ Hedgers		% FPOs/ Farmers/ VCPs/ Hedgers		FPOs/ Farmers/ VCPs/ Hedgers	
		Long	Short	Long	Short	Long	Short
16654	KGS	-	-	-	-	-	-
Note: Details are provided based on daily disclosure on the Exchange website for the period April 2022 to March 2023 in line with SEBI circular no SEBI/HO/CDMRD/DNPMP/CIR/P/2019/08 Dated January 04, 2019 Based on the data provided by the members from time to time pertaining to Farmers/ FPOs, VCPs/ Hedgers							

m. Number of unique FPOs / farmers and VCPs/hedgers who traded in the financial year 2022-23

Farmers/FPOs	Value Chain Participants (VCPs)
-	-

Based on the classification provided by the members as on March 31, 2022 for clients traded during FY 2021-22.

n. Algorithmic trading as percentage of total trading

2022-23	Algorithmic trading as % of total trading
Kapas	-

o. Delivery defaults

o Number of instances – Nil

o Quantity involved – Nil

o Value involved – Nil

3. Price movements

a. Comparison, correlation and ratio of standard deviation of Exchange futures price vis-à-vis international futures price (wherever relevant comparable are available).

Kapas futures are only available in India.

b. Comparison, correlation and ratio of standard deviation of Exchange futures price vis-à-vis international spot price (wherever relevant comparable are available) and domestic spot price (exchange polled price).

Kapas futures are only available in India.

c. Correlation between exchange futures & domestic spot prices along with ratio of standard deviation.

Correlation between MCX Kapas futures prices and spot prices in 2022-23	**NA**
Standard deviation of MCX Kapas futures prices in 2022-23	NA
Standard deviation of MCX Kapas spot prices in 2022-23	1.17
Ratio of Standard deviation of MCX Kapas futures prices to spot prices in 2022-23	NA

Note: Negligible trade in kapas futures

d. Correlation between international futures & international spot prices along with ratio of standard deviation (wherever relevant comparable are available).

Kapas futures are only available in India.

e. Comparison of Exchange polled price and mandi price (in case of agricultural commodities) / other relevant price (in case non-agricultural commodities) at basis centre.

Kapas mandi price is not available.

f. Maximum & Minimum value of daily futures price volatility and spot price volatility along with disclosure of methodology adopted for computing the volatility.

	Maximum Daily Volatility	Minimum Daily Volatility
Future price	NA	NA
Spot price	2.86%	0%

Methodology adopted for computing volatility -

Volatility in any particular trading day is calculated by the formula given below-

Volatility = ln (Price/Previous day's price)*100

g. Number of times the futures contract was in backwardation/contango by more than 4% for the near month contract in the period under review

Not applicable due to negligible trade in kapas futures in the year of 2022-23.

4. Others parameters

a. Qualitative and quantitative measure for Hedge effectiveness ratio and basis Risk (Volatility of Basis) along with disclosure of methodology adopted for such calculations

Hedge Ratio for 2022-23	
Commodity	**Hedge Ratio**
Kapas	NA
- Hedge ratio is the value of slope between returns of near-month futures and returns of MCX spot during the financial year.	

Basis Risk for 2022-23			
Commodity	**Unit of Basis**	**Avg Return of Basis**	**Basis Risk**
Kapas	Rs/20 Kg	NA	NA
- Basis Risk is computed as the Standard deviation of daily normal return in Basis, which is excess of Spot over Futures price. - In case Basis is zero for any day , next day's Basis return has been ignored for computing the standard deviation.			

b. Details about major physical markets of the commodity vis-à-vis market reach in terms of availability of delivery centers (information to be provided state-wise and UT-wise).

Name of State	**Name of the physical markets**	**Market Reach of basis delivery center**
Gujarat	Keshod, Bardoli, JetpurPavi, Gondal, Balasienor, Rajkot, Babra, Amreli, Sabarkantha, Visnagar, Vijapur, Halvad, Unai, Manavadar, Bevla, Mansa, Mandvi, Kutch.	Rajkot
Maharashtra	Nagpur, Narkhed, Nanded, Yavatmal, Hinganghat, Wardha, Pulgaon, Akola, Amaravati, Murtizapur, Aurangabad, Jalna, Sillod, Dhule, Jalgaon	No delivery centre
Punjab	Bhatinda, Ferojpur, Sangur, Muktsar, Faridkot, Mansa	No delivery centre
Haryana	Hisar, Fatehabad, Sirsa, Bhiwani, Rohtak, Panipat, Jind, Kaithal, Gurgoan	No delivery centre
Telangana	Adilabad, Warangal, Nirmal,	No delivery centre
Andhra Pradesh	Guntur, Khammam	No delivery centre
Karnataka	Bailhogal, Bellary, Bijapur, Gadaj, Haliyal, Hubli, Kottur, Jamkhand, Raichur, Ranebennur, Savadatti, Shimoga, Yellapur	No delivery centre

Madhya Pradesh	Badwani, Betul, Chindwara, Dhar, Dewas, Harda, Jhabua, Khandwa, Khargone, Ratlam, Shajapur	No delivery centre
Rajasthan	Hanumangarh, Pili Banga, Sriganga– nagar, Palampur, Sangriya, Suratgarh, Sri Vijayanagar, Shadulshakar, Rawatsar, Kherthal, Bijaynagar, Rajsighnagar.	No delivery centre
Tamil Nadu	Cuddallore, Villupuram, Vellore, Thiruvannamalai, Salem, Dharamapuri, Coimbatore, Erode, Tiruchilapalli, Thanjavur, Pudukottai, Dindigul, Madurai, Theni, Virudhanagar, Tirunelveli	No delivery centre
Orissa	Ganjam, Roygoda, Karaput, Kalahandi, Navaranpur, Bolangir, Dhenkenal,	No delivery centre

Source: Trade estimate.

c. Details about major physical markets of the commodity and average Open Interest for each month generated from those regions.

Physical markets of Kapas are already mentioned above. Region-wise open interest is not available.

d. Details, such as number and target audience, of stakeholders' awareness programs carried out by the exchange.

Overall, the PMT – Agri team conducted 99 programs in the Agri segment and the target participants were primarily the physical participants, especially, the Farmers and Farmer Producing Organisations (FPOs) associated with the commodities listed on the MCX platform.

e. Steps taken / to be undertaken to improve hedging effectiveness of the contracts as well as to improve the performance of illiquid contracts.

The exchange strives to ensure that the contract remains a healthy replica of the physical market. We do one-on-one meetings and Product Advisory Committee (PAC) meetings with the physical market participants to make modifications in the contract to make it more lucrative for physical participants to participate in the contract.

5. Any other information to be disclosed as deemed important by the exchange or as suggested by the PAC.

No other information to be disclosed.

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